

City of Detroit

CITY COUNCIL

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ANNE MARIE LANGAN
DEPUTY DIRECTOR
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TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Director *ACJ*

DATE: March 11, 2008

RE: Responses to Questions on Eastern Market Corporation Financial Information

I appreciate the attached responses from Mr. Dan Carmody, President of the Eastern Market Corporation (EMC) on questions I had on the following financial information I received from the EMC back in November 2007:

- The 2007-08 Operating Budget for the Eastern Market Corporation (EMC) that was adopted by its Board of Directors;
- A management letter (i.e. report on internal controls) dated October 18, 2007 prepared by the audit firm of George Johnson & Company stemming from the audit of Eastern Market's financial statements as of June 30, 2007;
- An audit letter from George Johnson & Company dated October 18, 2007 to the Finance Committee of the EMC; and
- The audited financial statements for the EMC as of June 30, 2007, with an unqualified opinion from George Johnson & Company.

Based on my review of the responses, I respectfully recommend that the Internal Operations Standing Committee does not schedule a discussion with representatives of the EMC on the above referenced financial information due to the following:

1. Responses to my questions on the 2007-08 Operating Budget are reasonable; especially given the fact that the final budget adopted by the EMC Board of Directors in October 2007 is \$46,500 lower in total than the initial 2007-08 budget for more conservative purposes, and the fact that the final budget helps to better answer my questions on the budget.
2. It appears the EMC has made substantial progress in addressing the internal control issues raised by EMC's external auditor, George Johnson & Company. In addition, it is great that the EMC will receive a new grant from the Kellogg Foundation up to \$35,000 to help pay for a financial management expert to assist the EMC in clearing up some of the internal control issues.

3. Responses to my questions on EMC's audited financial statements as of June 30, 2007 appear reasonable.
4. The EMC will be coming before the Honorable City Council in May during its budget hearing, which is now scheduled on May 8th at 11:00 am. Therefore, Council will be receiving updated information on the EMC and Eastern Market operations within a couple of months.

Attachments

cc: Council Divisions
Auditor General's Office
Ombudsperson's Office
Dan Carmody, President-Eastern Market Corporation
Douglass Diggs, Planning and Development Director
Loren Jackson, Recreation Director
Norman White, Chief Financial Officer
Pamela Scales, Budget Director
Kerwin Wimberly, Mayor's Office

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EASTERN MARKET CORPORATION

February 21, 2008

Irvin Corley Jr.
Director
Detroit City Council Fiscal Analysis Division
Coleman A. Young Municipal Center
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Detroit, MI 48226

Dear Irvin:

Please find below responses to the questions about Eastern Market Corporation (EMC) financial information contained in your correspondence dated February 11, 2008. I have copied your questions in bold letter with our response to each question following.

- 1. The EMC's operating budget for 2006-07 submitted to Council in May 2007 during its fiscal year 2007-08 budget process showed a "carry forward to future fiscal year" of \$57,545. However, I don't see it on the 2007-08 budget. What happened to this amount?**

When the 06-07 Budget was prepared it was estimated that the Corp would operate under a surplus and that surplus would be carried forward for use in future years. As preparations for the 07-08 budget were underway, it appeared that revenues would match expenses so any surplus realized in 06-07 would not be needed for 07-08, but would instead be held as a fund balance for a future year when it was necessary, possibly 08-09. As per the audit submitted earlier, we in fact had net income from Market Operations of \$13,516, for FY06-07 all of which was applied to the Operating reserve.

- 2. The 2007-08 budget is marked "draft". Is this the budget the EMC Board of Directors officially adopted, or is there a budget document marked "final"? If so, please submit a copy that I can forward to City Council.**

Please find attached a copy of the final budget as approved by the EMC Board at its meeting on October 24, 2007. It differs from the draft version submitted to your in our letter of November 26, 2007. I am very sorry for any confusion this may have caused but please note that I began work as President only the week before.

- 3. A planning document on Eastern Market Operations dated April 12, 2007 showed a projection of \$835,000 in market vendor revenues for 2007-08. By comparison, \$758,750 was budgeted as market vendor revenues for 2006-07, a partial year (about six months) for the newly established EMC. However, \$765,000 was budgeted for market vendor revenues for 2007-08. Why is it that the level of 2007-08 market vendor revenues is below projections and close to the amount budgeted for 2006-07, a partial year?**

As you can see in the revised budget vendor revenues for 2007-08 were budgeted at \$824,000 very much in line with the April 12, 2007 planning document and above those for the previous year.

- 4. Related to question 3, it is interesting that the 2007-08 budget reflects only \$112,500 budgeted for communications, outreach plan, marketing/promotion/education, as compared to \$165,000 for similar items in the 2006-07 budget, which seems to support the relatively level market vendor revenues budgeted for 2007-08. Please explain.**

EASTERN MARKET CORPORATION

While \$165,000 was budgeted for marketing, communications, and outreach in 2006-07 only \$57,268 was actually expended in those categories during that fiscal year. Though before my time at EMC, I believe this large discrepancy may be explained by the fact that there was little previous financial information to use as a guide and EMC was conservative in expending funds.

Make no mistake however, I agree with the idea that we need to increase marketing and outreach efforts at Eastern Market and have been working with staff to develop a program to sell more sponsorship opportunities by adding more programming to our Saturday market. Any additional funding obtained from sponsorship sales will be invested in increased marketing and outreach efforts so I believe that we will end the year with more invested in these activities than is budgeted.

5. Please explain the "Hudson Webber/DDP" program that is to generate \$80,000 in miscellaneous income for 2007-08.

Please note that the Misc. Income line item in the final budget was reduced to \$50,000. The Hudson Webber / DDP reference may be explained that this fund source was a contribution towards economic development planning work for the Eastern Market District made by the Hudson Webber Foundation and channeled through the Downtown Detroit Partnership as fiscal agent.

That \$50,000 is being used to purchase professional fund raising expertise to expedite completion of the fund drive for shed renovation.

6. Does the EMC have a firm commitment that it will receive \$595,500 in contributions from the Kellogg Foundation and the Community Foundation of Southeast Michigan? This is important since a little over 37% of total operations are to be supported by these contributions. Please provide the expected amount from each foundation.

The budget amount for contributions in the final budget is \$550,000 which represents firm commitments of \$500,000 from the Kellogg Foundation and \$50,000 from the Community Foundation of Southeastern Michigan.

7. Please describe "tax liability" of \$97,000, "economic development" of \$88,500, \$45,000 in "evaluation", and \$30,000 in "executive" budgeted expenditures for 2007-08. These items were not a part of the 2006-07 budget.

Tax liability of \$97,000 represent EMC share of employment taxes related to salaries and wages paid by the corporation.

Economic development expenses are related to the development of an economic development strategy for the Eastern Market District. Chan Krieger is the lead consultant engaged in preparing the strategy for the district with Mannik Smith & Associates responsible for the preparation of a conceptual traffic plan for the district.

Evaluation expense of \$45,000 is a mandated expense by the Kellogg Foundation to hire a consultant to evaluate EMC efforts to meet the outreach goals associated with the grant.

I have the following questions on the management letter dated October 18, 2007 prepared by audit firm George Johnson & Company:

8. Please provide an update on recommended procedures related to:

- **Segregation of day stall rentals recording from collection of payments.**

Please find attached the Saturday Stall Rental Collections Procedure checklist that was adopted following the audit.

EASTERN MARKET CORPORATION

- **Daily spot checking for proper authorization of day rentals, and recording thereof.**

As you can see from the Procedure checklist the Director of Operations spot checks day rentals independent of the A.M. Superintendent who is the person primarily responsible for the collection of day rentals.

- **Recording of rental and lease revenue on an accrual basis (although, ideally this would be done monthly, it would be understandable if you are looking to record these revenue accruals by year-end, or June 30th).**

We will be changing from a cash basis accounting system to a modified accrual system at the start of the next fiscal year. We have received a new grant from the Kellogg Foundation to hire a financial management expert to assist us in the revision of our accounting system to make this change and other revisions to make sure our accounting system best meets our needs for clarity, timeliness, and as a tool for sound decision making.

- **Recording expenses on a functional basis.**

This is another item being addressed in modifications to our accounting system.

- **Implementing a capitalization policy.**

A policy has been drafted and will be presented for adoption at the next regular meeting of the Board of Directors

- **Signing of lease agreements.**

We have instituted an Operations Committee comprised of two EMC staff members and eleven vendors to review and revise operating procedures, policies, and a newly formatted vendor stall agreement. We expect that we will have achieved nearly 100% compliance in our next season at the market beginning April 1, 2008.

I have the following questions on the audited financial statements for the EMC as of June 30, 2007:

9. **Page 7, "Administration" section under NOTE A indicates the Detroit Economic Growth Corporation (DEGC) provides administrative and professional services for the EMC. Please describe those services and why the DEGC is providing those services rather than EMC employees.**

Currently EMC accounting functions are being handled by a part time EMC bookkeeper and by a contract for accounting services with DEGC. This was done as a way to expedite development of a bookkeeping system during EMC's start up phase.

We are presently hiring a full-time fiscal manager and consolidating the work of the part time bookkeeper and the DEGC contracted services. The new hire will work with financial management expert described above to improve our accounting function.

10. **Page 9, NOTE C indicates EMC's responsibility to maintain operating and capital reserve accounts in accordance with the Management and Promotion Agreement between the City and the EMC. I see that the EMC has an established operating reserve account, as indicated in the Schedule for Public Market Operations on Page 14. However, this schedule shows zero for a capital reserve account. Does the EMC anticipate establishing a capital reserve account by year-end June 30, 2008?**

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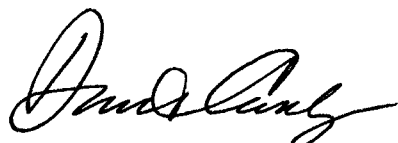
The Management and Promotion Agreement authorize us to prepare and execute lease agreements and collect rents. Those monies must be disbursed in the following order: Operating expenses, Debt Service, Improvements, An Operating Reserve, A Capital Reserve - neither reserve can exceed 5% of total revenue generated by the operation of the market in any fiscal year.

The Capital reserve as of now remains unfunded, but will become funded this year should Market Operation provide net income sufficient to max out the operating reserve.

I hope we have answered the questions to your satisfaction. Please do not hesitate to contact either myself or Doshia Barton if you need additional information or have further questions.

Thank you for your diligence in reviewing our financial information.

Sincerely,

A handwritten signature in black ink, appearing to read 'Dan Carmody', written in a cursive style.

Dan Carmody
President

EASTERN MARKET CORPORATION

DRAFT OPERATING BUDGET

2007-2008

EMC 2007-2008 Budget
Board approved 10-24-07

	Contributions	Vendor Revenues	CDBG Block Grant	Total Operating Funds
REVENUES				
Market Vendors, other rentals		\$824,000	\$0	\$824,000
CDBG			\$250,000	\$250,000
Interest Income		\$10,000		\$10,000
Msc. Income	\$50,000			\$50,000
Interfund Transfer				
Contributions	\$550,000			\$550,000
Revenue Total	\$600,000	\$834,000	\$250,000	\$1,684,000
EXPENDITURES				
Personnel				
Salaries	\$215,000	\$345,000	\$100,000	\$660,000
Tax Liability	\$40,000	\$82,000	\$10,000	\$132,000
Full-time Fringe Benefits	\$20,000	\$70,000	\$17,000	\$107,000
Personnel Sub-Total	\$275,000	\$497,000	\$127,000	\$899,000
Professional Fees				
Audit, Accounting		\$15,000	\$20,000	\$35,000
Legal		\$30,000		\$30,000
Econ Development	\$50,000		\$38,500	\$88,500
Communications	\$10,000			\$10,000
Outreach Plan	\$55,500			\$55,500
Evaluation	\$44,000			\$44,000
Professional Fees Sub-Total	\$159,500	\$45,000	\$58,500	\$263,000
Office Expenses				
Office Supplies	\$10,000	\$4,000	\$10,000	\$24,000
Telephone	\$6,000	\$4,000		\$10,000
Office Equipment	\$4,000	\$2,000	\$3,500	\$9,500
Leased Office Equipment		\$3,000		\$3,000
Financial Reporting Services	\$14,000	\$6,000		\$20,000
Postage			\$2,000	\$2,000
Memberships, Subscriptions, Professional				
Certifications	\$3,000	\$2,000		\$5,000
Insurance	\$10,000	\$8,000		\$18,000
Printing/Reproduction/Production	\$20,000	\$2,000	\$7,000	\$29,000
Travel/Professional Development	\$22,000			\$22,000
Office Expenses Sub-Total	\$89,000	\$31,000	\$22,500	\$142,500
Maintenance and Security				
Security		\$50,000	\$22,000	\$72,000
Groundskeeping		\$78,500		\$78,500
Maintenance and Repair		\$100,000		\$100,000
Market supplies		\$18,000		\$18,000
Capital Equipment	\$29,500	\$14,500	\$20,000	\$64,000
Maintenance and Security Sub-Total	\$29,500	\$261,000	\$42,000	\$332,500
Marketing/Promotion/Education				
Communications	\$7,000			\$7,000
Events	\$20,000			\$20,000
Advertising/Promotions	\$20,000			\$20,000
Marketing Sub-Total	\$47,000	\$0		\$47,000
Total Expenses	\$600,000	\$834,000	\$250,000	\$1,684,000

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Saturday Day Stall Rental Collections Procedure

1. A.M. Superintendent conducts Saturday day stall collections:
 - a. Inspect the market and confirm attendance of any vendor owing day stall rent
 - b. Collect rent in the form of check or money order
 - c. Record the collection on the stall occupancy chart
 - d. Write out receipt for any day stall rent collected
2. Independent of the A.M. Superintendent, the Director of Operations inspects the market, confirming attendance of any vendors subject to collection of day stall rent
3. A.M. Superintendent returns to the office, copies the stall occupancy chart and all checks/money orders
4. A. M. Superintendent provides Director of Operations with a copy of the stall occupancy chart and all checks/money orders for review
5. Director of Operations confirms that the stall occupancy chart and the checks/money orders are present for all vendors owing day stall rent
6. Director of Operations then drops all checks/money orders for accountant/bookkeeper to record and deposit.
7. Accountant/bookkeeper records payment into Quickbooks and deposits funds into the bank.